

Introduction to Business Finance

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**“An
investment in
knowledge
pays the best
interest.”**

— Benjamin Franklin, *The Way to Wealth* (1758)

What is **Business** Activity?

- Business activity means **actions by individuals or organizations.**
- **Purpose:** producing, buying, or selling goods & services.
- **Aim:** to satisfy human needs and wants.
- Involves using **resources** like **land, labor, and capital.**
- Creates **value & generates profit.**

Types of Business Activity

01 | Primary

Involves extracting and using natural resources directly from the earth.

02 | Secondary

Involves manufacturing and processing raw materials into finished or semi-finished goods.

03 | Tertiary

Involves providing services to individuals and businesses rather than producing goods.



Concept Checkers

1. Which of the following best describes *business activity*?

A) Playing sports for recreation

B) Actions taken to produce, buy, or sell goods & services

C) Donating money to charity

D) Government making laws

Concept Checkers

2. Which of the following is an example of a primary business activity?

A) Teaching at a University

B) Manufacturing cell phones

C) Mining coal

D) Selling clothes in a shop

Concept Checkers

3. A car manufacturer that buys steel and rubber to make vehicles is engaged in which type of business activity?

A) Primary

B) Secondary

C) Tertiary

D) None of the above

Concept Checkers

4. A farmer grows wheat, a flour mill turns it into flour, and a bakery sells bread made from that flour. Which is the correct sequence of business activities?

A) Primary → Tertiary → Secondary

B) Tertiary → Primary → Secondary

C) Primary → Secondary → Tertiary

D) Secondary → Primary → Tertiary

Concept Checkers

5. Which of the following correctly matches the business activity with its example?

- A) Banking → Secondary activity**
- B) Construction → Primary activity**
- C) Retailing → Tertiary activity**
- D) Fishing → Secondary activity**

Finance

“Finance is the **science** of **managing** money. It is concerned with the **processes, institutions, markets, & instruments** involved in the **transfer of money** among **individuals, businesses, & governments.**”

-- Brigham, E. F., & Ehrhardt, M. C. (2017). Financial Management: Theory & Practice (15th ed.). Cengage Learning.

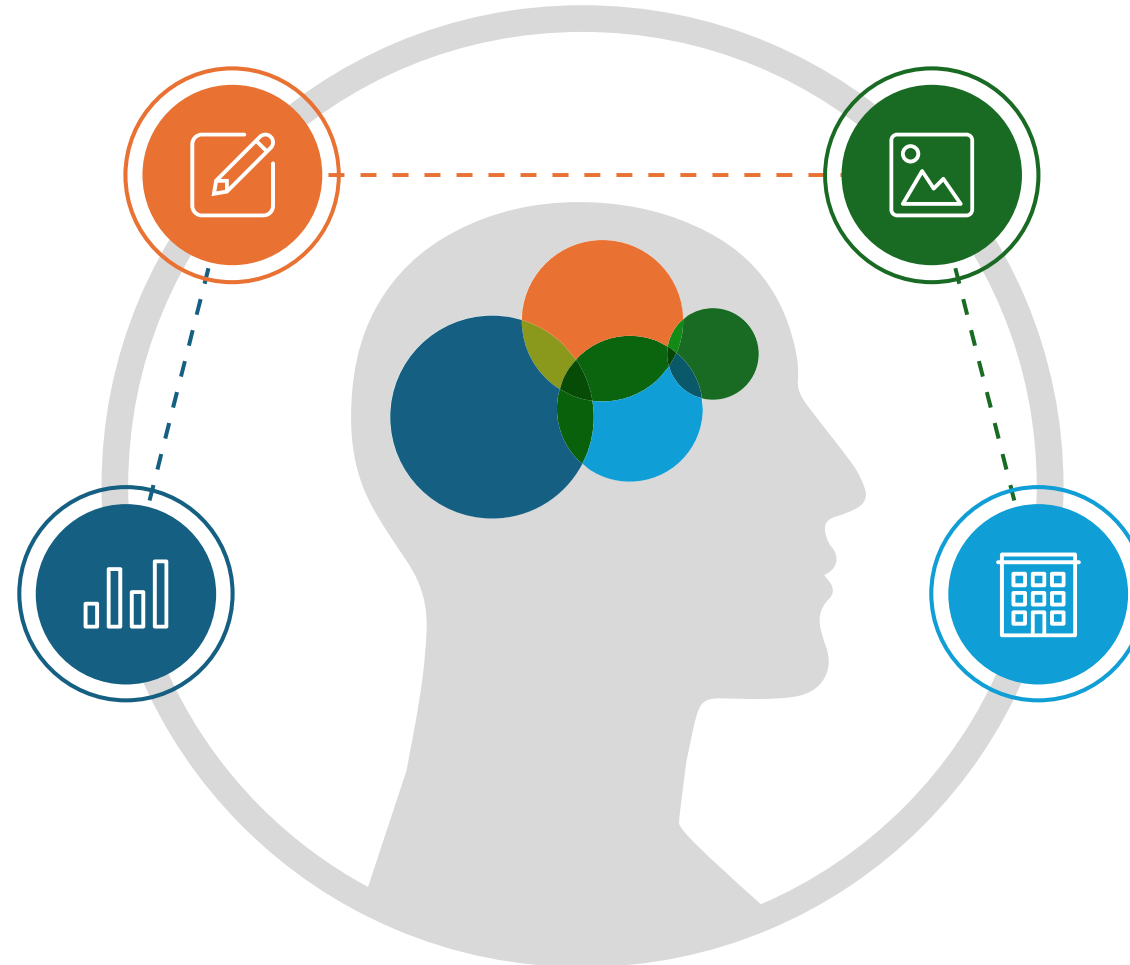
Nature of Business Finance

Money Management

It deals with raising capital, allocating it to projects, and ensuring efficient use of resources.

Continuous Process

Finance is required at every stage of a business: starting, running, expanding, or winding up.



Decision Oriented

Financial managers make decisions on investment (where to use funds), financing (how to get funds), and dividends (how much profit to distribute or retain).

Linked with All Departments

Finance affects production, marketing, human resources, and operations since all require funds.

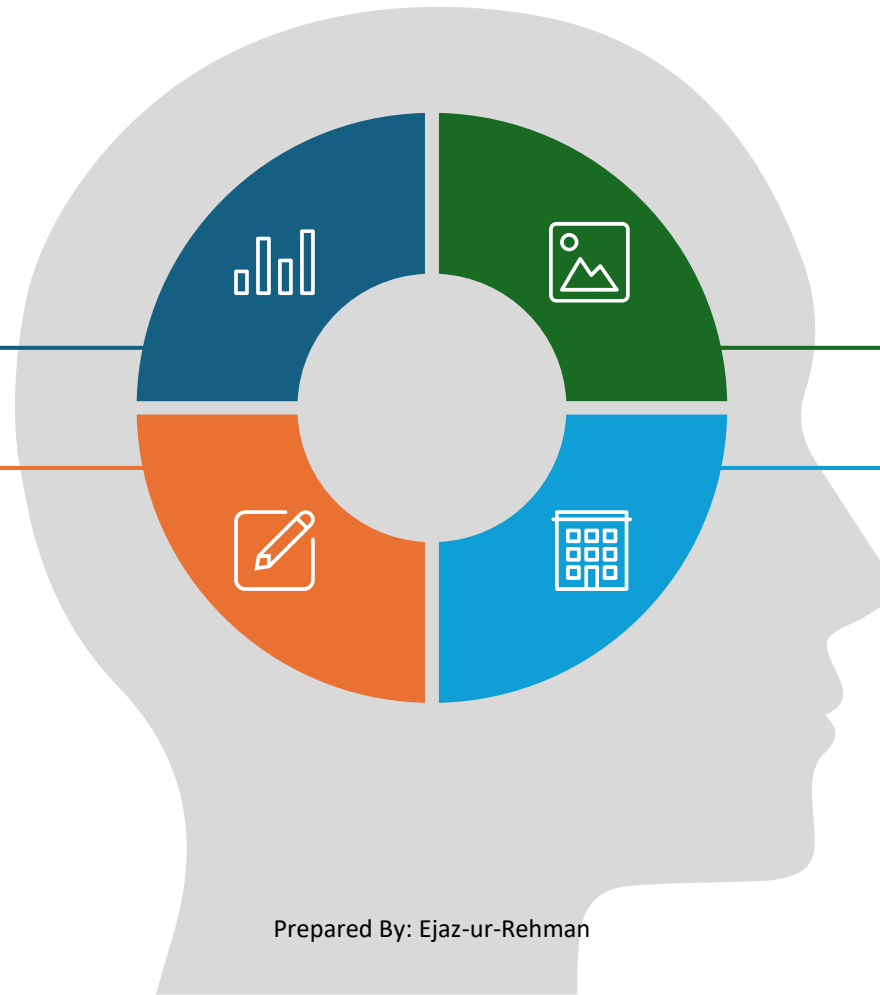
Scope of **Business** Finance

Investment Decisions (Capital Budgeting)

Choosing where to invest business funds (projects, machinery, expansions).

Financing Decisions (Capital Structure)

Deciding the sources of funds: equity, debt, retained earnings.



Working Capital Management

Managing current assets (cash, inventory, receivables) and current liabilities (payables, short-term loans).

Dividend Decisions

Determining how much profit to distribute as dividends and how much to retain for growth.

Concept Checkers

1. Finance primarily deals with:

A) The study of history

B) Managing money, investments, and resources

C) Designing marketing campaigns

D) Producing goods and services

Concept Checkers

2. Which of the following is not part of the nature of finance?

A) Concerned with money management

B) A continuous process

C) Balances risk and return

D) Focused only on production activities

Concept Checkers

3. Which of the following belongs to the scope of business finance?

A) Time management and scheduling

B) Investment, financing, dividend, and working capital decisions

C) Marketing mix (4Ps) decisions

D) Human resource planning

Concept Checkers

4. A company must decide whether to finance a new project using a bank loan or by issuing shares. This decision falls under which scope of finance?

A) Dividend Decision

B) Financing Decision

C) Investment Decision

D) Working Capital Management

Concept Checkers

5. The finance manager of a firm must balance the trade-off between liquidity and profitability while managing cash, receivables, and inventory. This responsibility comes under:

A) Investment Decision

B) Working Capital Management

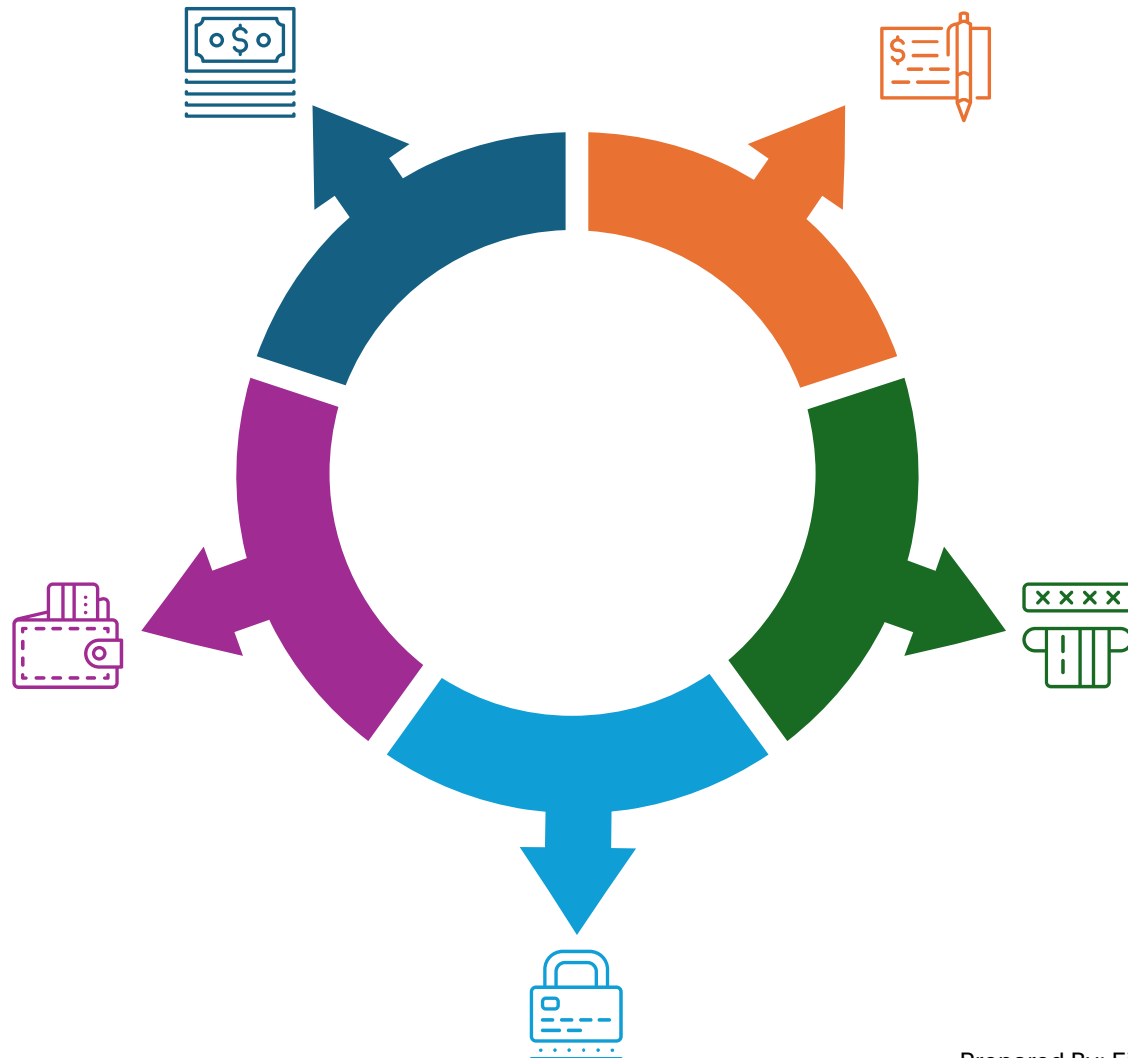
C) Dividend Policy

D) Taxation Decision

A close-up photograph of a hand in a light blue shirt sleeve, firmly gripping a black stamp handle. The stamp is positioned over a document, ready to be used. The background is blurred, showing what appears to be a window or office setting.

Organizational forms of **Business**

Organizational forms of **Business- Attributes**



Legal Identity

Whether the business is legally considered a separate entity or person apart from its owners.

Owner-manager Relationship

The relationship between the owner(s) of the business and those who manage the business.

Owner Liability

The extent to which owners are personally legally liable for actions or debts undertaken by the business.

Taxation

The extent to which owners are personally legally liable for actions or debts undertaken by the business.

Access to Financing

The ability to raise capital to fund expansion and distribute risks.



SOLE
TRADER

Sole Trader or Proprietorship

Sole Trader or Proprietorship

1. Legal Identity

- A sole trader has **no separate legal identity** from the owner.
- The business and the individual are considered the **same entity** in the **eyes of the law**.

2. Owner-manager Relationship

- The owner and manager are usually **the same person**.
- The sole trader takes **all major decisions** & directly **controls** day-to-day operations.

Sole Trader or Proprietorship

3. Owner Liability

- The owner has **unlimited liability**.
- This means **personal assets** (like house, car, savings) **can be used to settle** business debts.

4. Taxation

- **Profits** are taxed as the **personal income** of the owner.
- There is **no separate corporate tax** since the business is not a separate legal entity.

Sole Trader or Proprietorship

5. Access to Finance

- **Limited access** compared to companies.
- Mainly depends on the **owner's savings**, retained profits, or **loans from family**, friends, or banks.
- Raising **large amounts of capital** is difficult.

- A sole trader is the **simplest form of business**, **easy to set up & run**, but it comes with high personal risk (**unlimited liability**) & **limited growth potential** due to **restricted financing options**.

Concept Checkers

1. A sole trader business has how many owners?

A) One

B) Two

C) Unlimited

D) Minimum of 5

Concept Checkers

2. Which of the following best describes the legal identity of a sole trader?

A) Separate legal identity from the owner

B) Same legal identity as the owner

C) Incorporated by law as a company

D) Owned by shareholders

Concept Checkers

3. In a sole trader form of business, liability of the owner is:

A) Limited to the amount invested

B) Shared with partners

C) Unlimited, including personal assets

D) Borne by the government in case of losses

Concept Checkers

4. The profits of a sole trader are usually taxed as:

A) Corporate tax at company rates

B) Partnership income

C) Personal income of the owner

D) Exempt from tax if under small scale

Concept Checkers

5. Which of the following is the most accurate limitation of a sole trader regarding access to finance?

- A) Can raise unlimited funds from shareholders**
- B) Relies mainly on personal savings and small loans**
- C) Easily listed on the stock exchange for capital raising**
- D) Can issue debentures and bonds freely**

Partnership

Partnership

1. Legal Identity

A partnership does **not have a separate legal identity** from its partners (except in some cases like **Limited Liability Partnerships** in certain countries). The business & the partners are **legally the same**.

2. Owner-manager Relationship

The **owners** are usually the managers. Partners share **responsibilities** in running the business. Decisions may be made jointly, & **profits or losses** are shared according to the **partnership agreement**.

Partnership

3. Owner liability

In a general partnership, liability is **unlimited**. Each partner is personally **responsible for the debts of the business**. If the business cannot pay, creditors **can claim personal assets of the partners**.

4. Taxation

Profits are generally taxed as **personal income of the partners** rather than as a separate entity. Each partner pays tax on their share of the profits.

Partnership

5. Access to Finance

Partnerships have **better access to finance compared to sole traders**, because **multiple partners** contribute capital and may have stronger combined creditworthiness.

A partnership is a **business owned** & managed by two or more people who **share profits, responsibilities, & risks**. It doesn't have a separate legal identity, has **unlimited liability** (for general partners), profits are **taxed as personal income**, & **access to finance** is somewhat better than a sole trader but weaker than corporations.

Concept Checkers

1. A partnership usually has how many owners?

A) One

B) Two or more

C) Only three

D) Unlimited less than 10

Concept Checkers

2. In a general partnership, the business and the partners are considered:

A) Separate legal entities

B) The same legal entity

C) Government-controlled entities

D) Public limited companies

Concept Checkers

3. In a partnership, how is profit usually taxed?

A) As corporate tax

B) As personal income of partners

C) Not taxed at all

D) As sales tax

Concept Checkers

4. Which of the following best explains liability in a general partnership?

A) Each partner is responsible only for their own share of debts

B) Partners have unlimited liability and can be held responsible for all debts

C) Liability is limited to the capital invested by each partner

D) Liability is transferred to employees of the partnership

Concept Checkers

5. Why do partnerships usually have better access to finance compared to sole traders?

A) They can issue shares to the public

B) They have multiple owners contributing capital and combined creditworthiness

C) They receive automatic loans from banks

D) They do not require collateral for borrowing

Limited Companies

Limited **Companies**

1. Separate **Legal Entity**

- A limited company is a **separate legal entity** from its owners.
- It is created by filing **articles of incorporation** with a regulatory body.
- It can: Sign contracts
 - Employ people
 - Sue or be sued
 - Borrow or lend money
 - Invest funds
 - Pay taxes

Limited **Companies**

2. Owner-manager **Separation**

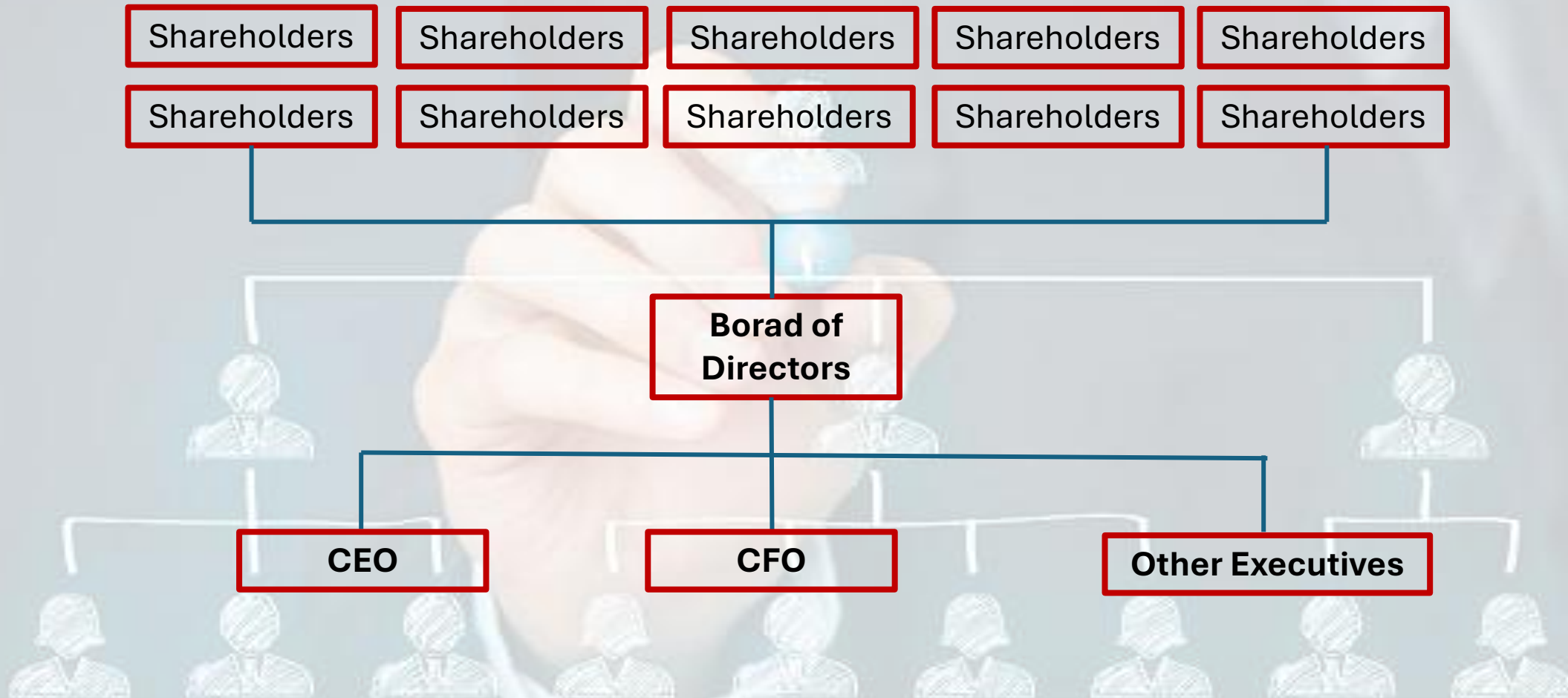
- In corporations, **ownership and management are separate.**
- **Shareholders** own the business but do not handle daily operations.
- Shareholders elect a **board of directors**, which appoints executive managers (e.g., CEO).
- Executives make key decisions on **investing, financing, and operations.**
- Directors and managers must act in the **best interest of shareholders** and, indirectly, all stakeholders.

Limited **Companies**

2. Owner-manager **Separation**

- If management fails to serve shareholders' interests, shareholders can:
 - use their **voting rights** to influence decisions,
 - or replace the **board of directors**.
- Such changes can take time, but shareholder engagement and voting are important tools for accountability.

Organization of Limited Company



Limited **Companies**

3. **Owner/shareholders' Liability**

- **Risk sharing:** All shareholders share the company's risk.
- **Limited liability:** Shareholders can only **lose up to the amount they invested**.
- They are not responsible for company debts unless they provide a separate guarantee.
- **Risk and return:** Shareholders earn profits or bear losses **in proportion to their ownership**, unless stated otherwise in the company's charter.

Limited **Companies**

3. **Owner/shareholders' Liability**

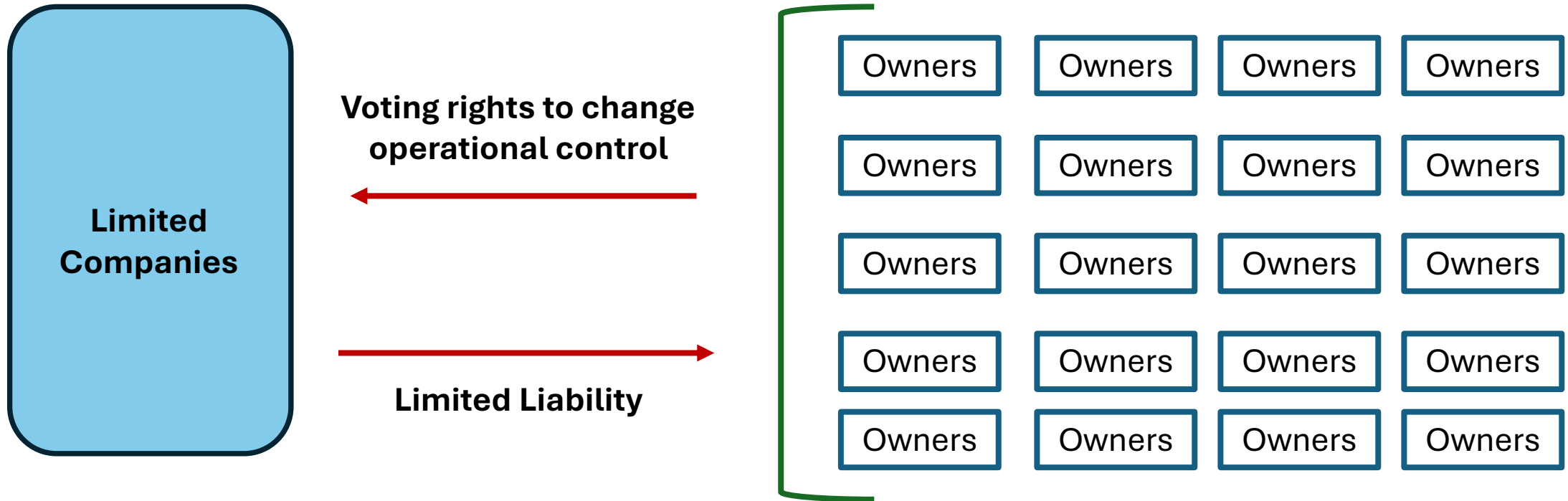
- **Shares as ownership units:**

- Ownership is divided into shares, which are small, tradable units.
- This makes it easy for investors to buy or sell ownership interests.
- Some companies issue more than **1 billion shares**, dividing ownership into very small parts.

- **Classes of shares:**

- Corporations may issue different types or classes of shares.
- Each class can have different **risk and return features** (to be covered in detail later).

Corporate Shareholder Liability



Limited Companies

4. External Financing

it means that compared to sole proprietorships or partnerships, setting up a corporation requires **more money, paperwork, and legal compliance.**

- **Separation of ownership and management** makes it easier for corporations to raise external financing.
- Buying a **share** is all that is needed to become an owner.
- Corporations are **costlier to form and operate** than other business structures, but they are preferred when **large amounts of capital** are required.

Limited Companies

4. External Financing

- Financing can come from:
 - individuals,
 - institutions (mutual funds, pension funds, banks, governments, non-profits, other corporations).
- Two main sources of corporate financing:
 1. Equity financing
 - Issuing shares to investors or reinvesting profits.
 - Shareholders may receive **dividends** (profit distributions).

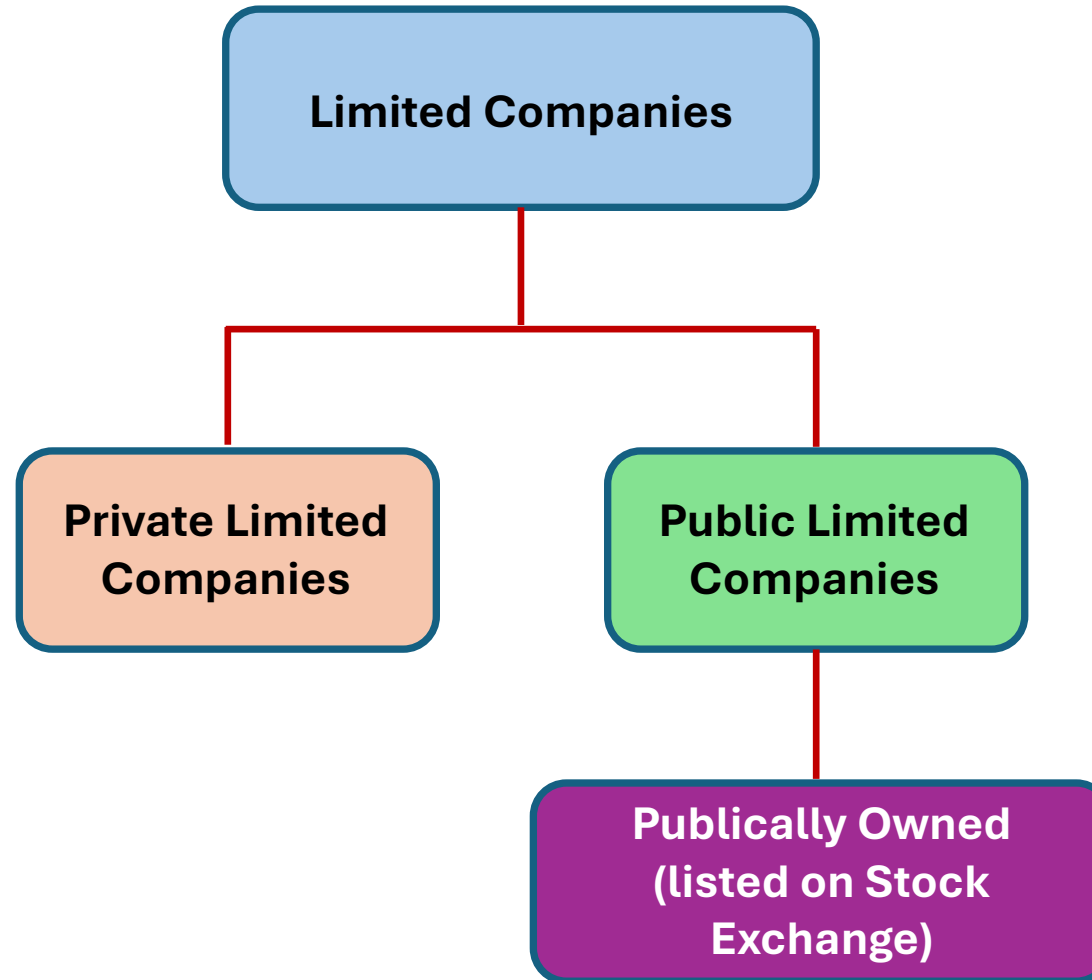
Limited **Companies**

4. External **Financing**

2. Debt financing

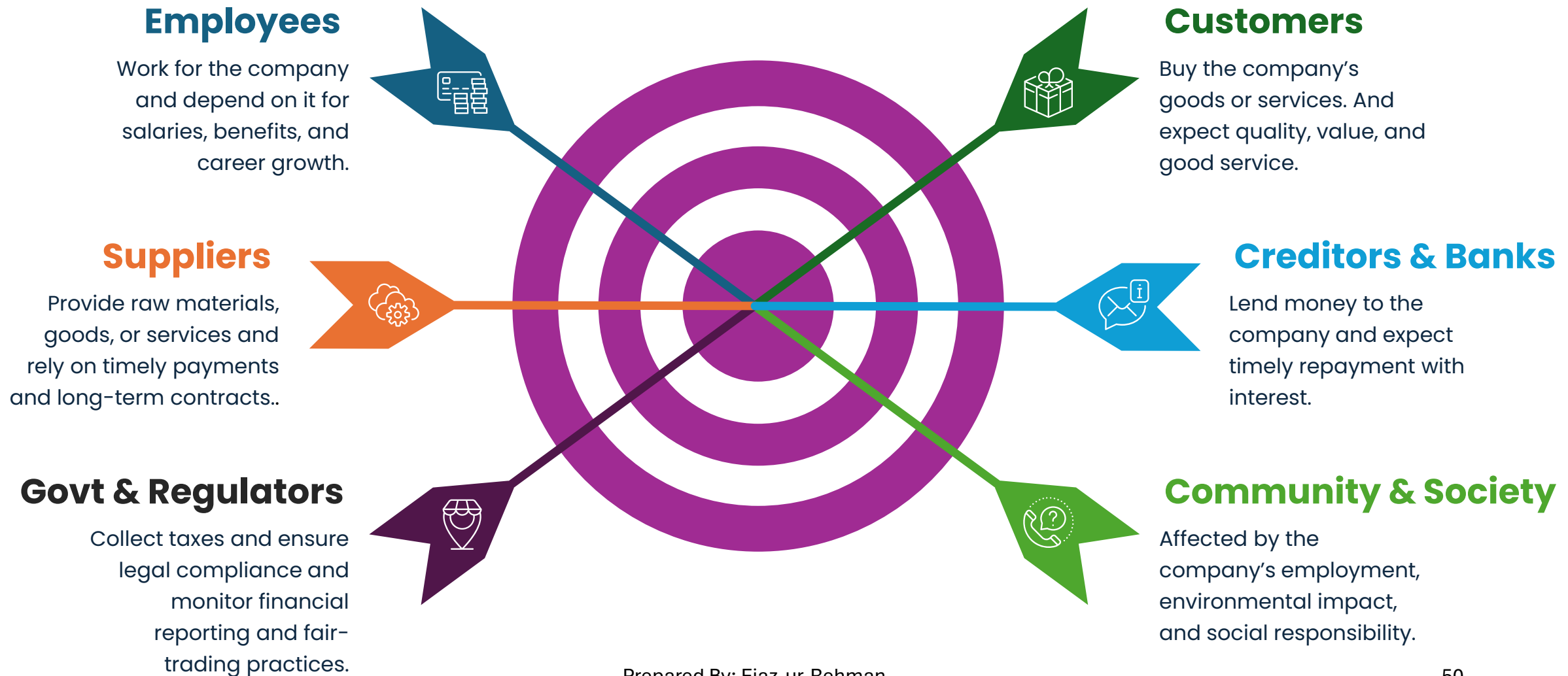
- Borrowing through loans, bonds, or leases.
- Debt must be repaid on a set date, with **interest**.
- Equity or debt financing can be raised through:
 - **Private agreements** between the issuer and investors, or
 - **Securities** (standardized instruments) that may be traded on public exchanges.

Public vs Privately owned Limited Companies

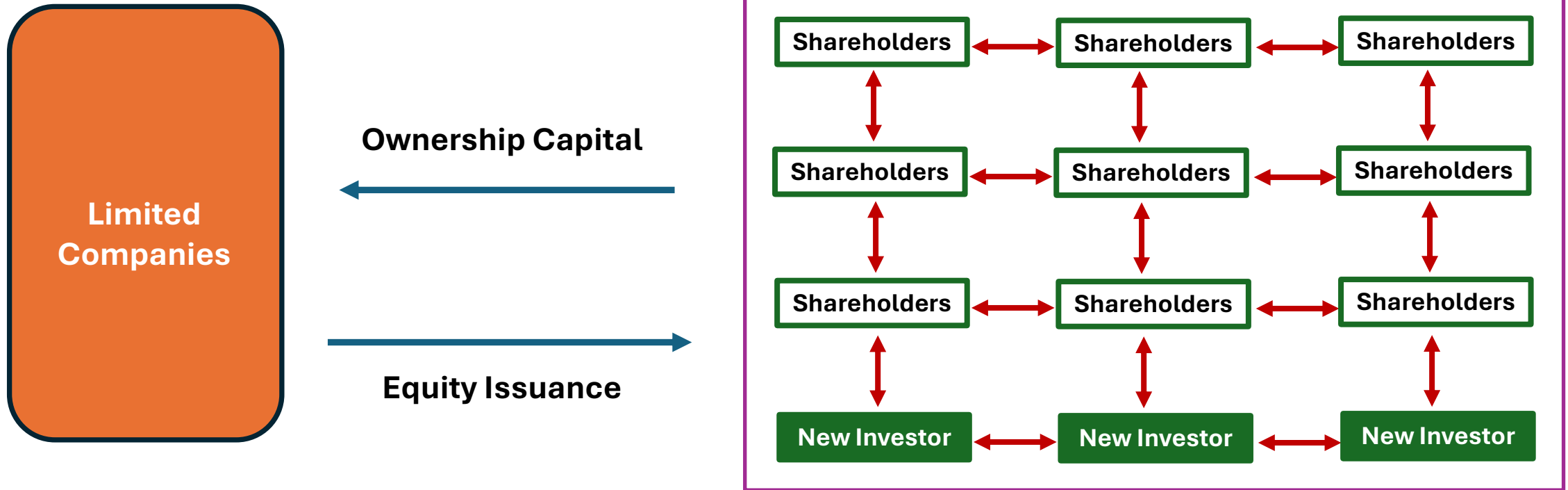


Pakistan State Oil

Stakeholders in a PLC (other than Shareholders & BOD)

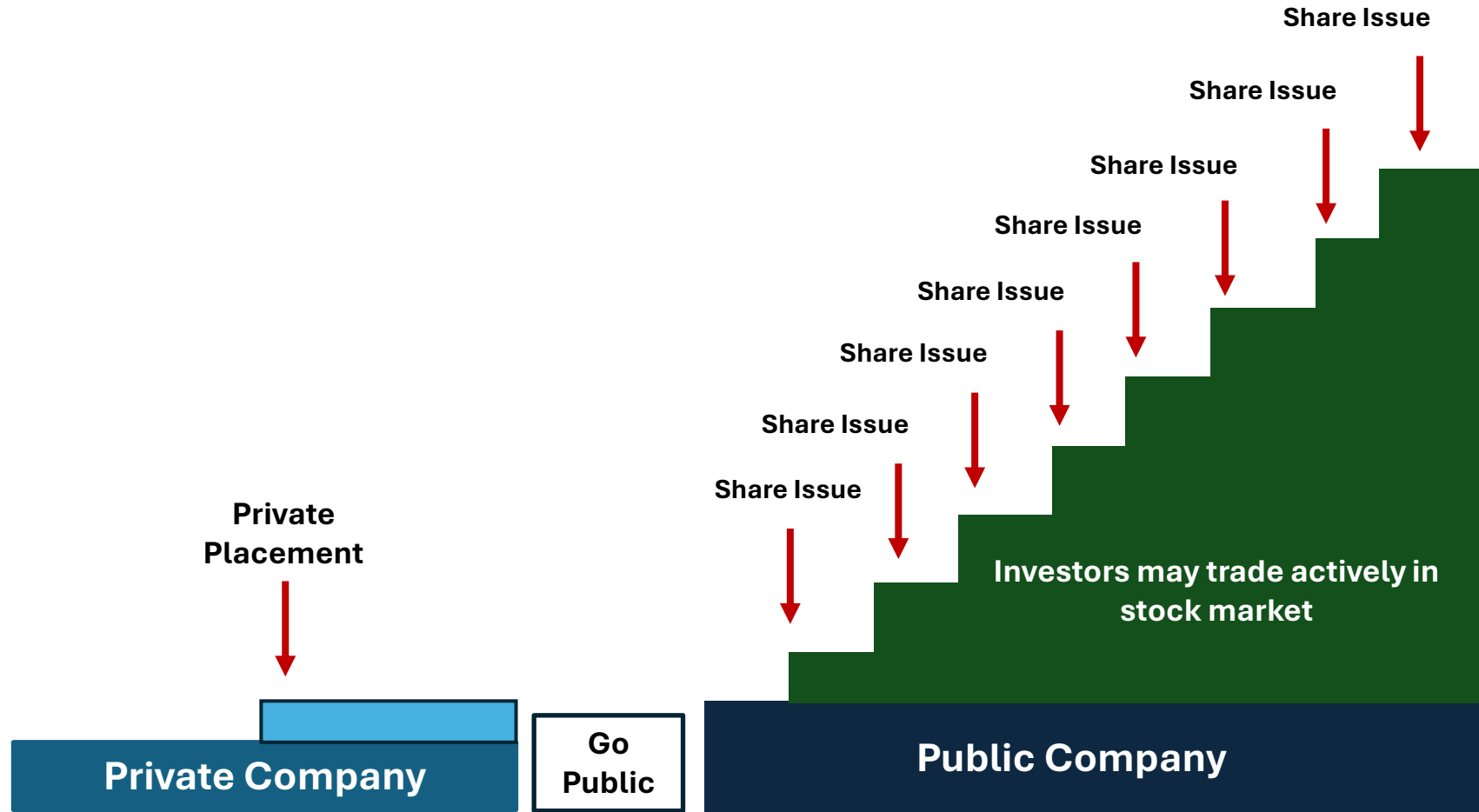


Public Companies- Share Ownership Transfer

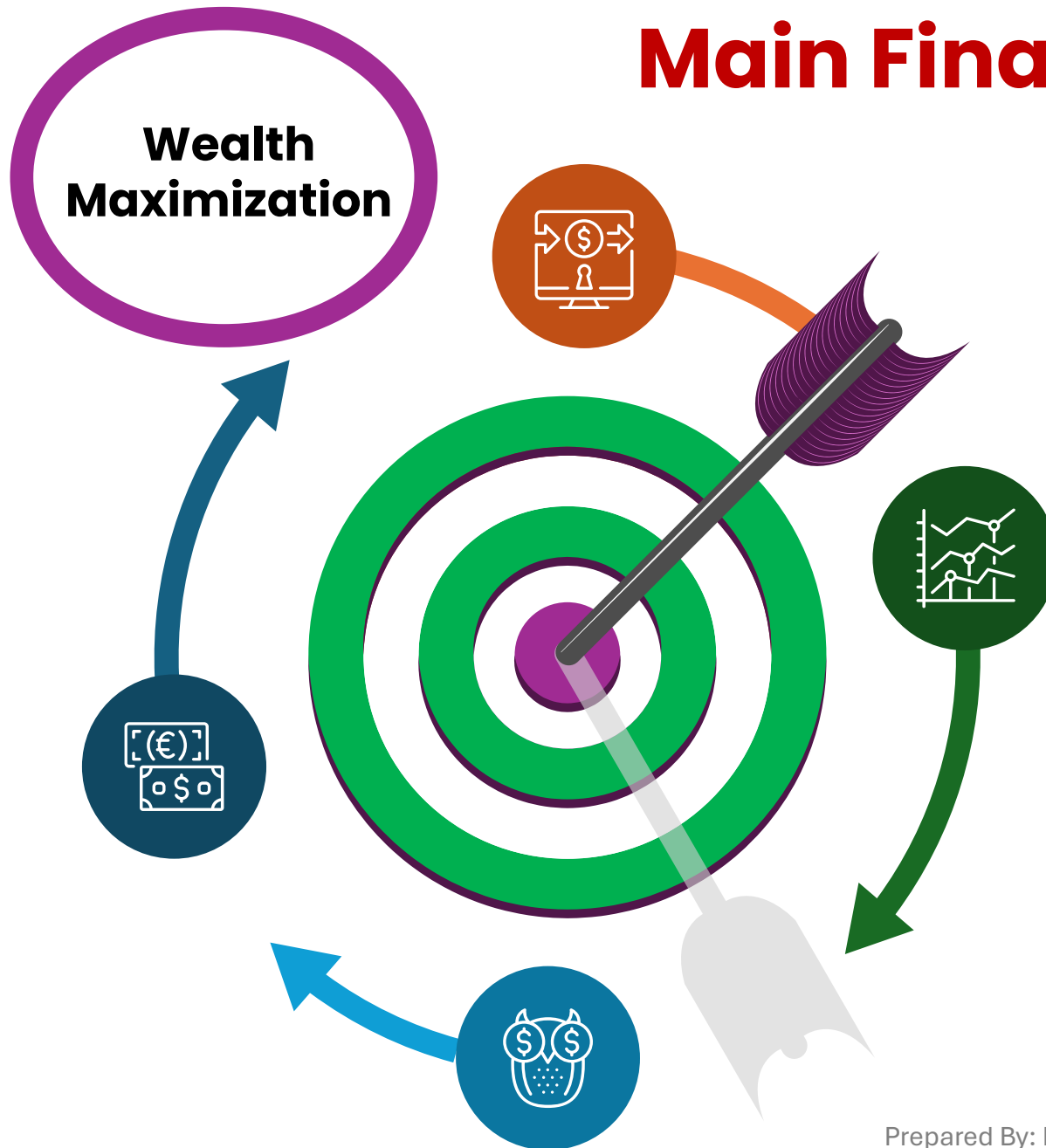


On Stock Exchange Trading
Parties trade with one another and
transferring ownership

Public Companies- Share Issuance & Financing Access



Main Financial Goal



Wealth Creation

Dividends: Profit distributions paid to shareholders. **Capital Gains:** Increase in the market value of shares.

Role of Management

Make strategic decisions in **investment, financing, and operations** that grow business value. Ensure returns are **higher than the cost of capital**.

Risk & Reward

Investors take on risk when buying shares. They expect compensation in the form of **sustainable and growing returns**.

Long-Term Perspective

Focus is not just on short-term profits. Goal is **sustainable growth**, balancing profitability and risk over time.

Role of **Finance Manager**

◆ **Financial Planning & Forecasting**

◆ **Financing & Investment Decisions**

◆ **Working Capital Management**

◆ **Risk Management**

◆ **Financial Reporting & Control**

◆ **Shareholders & Stakeholders Communication**



Job Opportunities in Finance

◆ **Finance Assistant / MTO**
Entry Level Role

◆ **Junior Financial Data Analyst**
Entry Level Role

◆ **AM Finance**
Mid Level Role

◆ **Cost / Management Accountant**
Mid Level Role



◆ **FM / Senior FM**
Senior Leadership Roles

◆ **Group FM / GM Finance**
Senior Leadership Roles

◆ **Financial Controller**
Senior Leadership Role

◆ **Director Finance / CFO**
Senior Leadership Role

Job Opportunities in Finance

◆ YOUR TITLE 01

Green marketing is a practice whereby companies seek to go.

◆ YOUR TITLE 02

Green marketing is a practice whereby companies seek to go.

◆ YOUR TITLE 03

Green marketing is a practice whereby companies seek to go.

◆ YOUR TITLE 04

Green marketing is a practice whereby companies seek to go.



◆ YOUR TITLE 05

Green marketing is a practice whereby companies seek to go.

◆ YOUR TITLE 06

Green marketing is a practice whereby companies seek to go.

◆ YOUR TITLE 07

Green marketing is a practice whereby companies seek to go.

◆ YOUR TITLE 08

Green marketing is a practice whereby companies seek to go.

Concept Checkers

1. A limited company is recognized as:

A) The same entity as its shareholders

B) A separate legal entity from its owners

C) A government organization

D) A form of partnership

Concept Checkers

2. In a limited liability company, the liability of shareholders is restricted to:

- A) Their personal assets**
- B) Unlimited liability**
- C) The amount they invested in shares**
- D) A fixed annual fee**

Concept Checkers

3. Which of the following is a key advantage of a limited company compared to a partnership?

A) Perpetual succession

B) Lower start-up costs

C) No corporate taxation

D) No directors required

Concept Checkers

5. Why do limited companies generally have better access to finance compared to sole traders or partnerships?

- A)** They do not pay corporate tax
- B)** They can issue shares and attract many investors
- C)** They are exempt from borrowing limits
- D)** They have no need for collateral when borrowing

Concept Checkers

4. How does the transferability of shares differ between a private limited company and a public limited company?

A) In both, shares cannot be transferred

B) Shares in a private limited company are restricted, while public limited company shares are freely traded

C) Public limited company shares are restricted, private are freely traded

D) Both allow free trading on stock exchanges

THANK
YOU!